First Insights

VENTURA
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Nakoda Limited CMP Rs 14.5 PE 4.6x CY2012E BUY

We initiate coverage on Nakoda Limited (Nakoda) as a BUY with an 18 month Price Objective of Rs 37 (target PE of 4.6x for CY2012) based on our blended valuation methodology. At CMP of Rs 14.5, the stock is trading at 3.3x and 1.8x its CY2011E & CY2012E earnings respectively, representing a potential upside of 154%. Nakoda is engaged in the manufacturing and trading of PET Chips, POY, FDY, Texturised & DT yarn and has a presence in the renewable power segment. Its recent foray into the new market of South Korea (through acquisition of a manufacturing plant) besides aiding volume growth and margin expansion would provide additional options for sourcing PTA & MEG thereby insulating it from the tight supply prevailing in the local markets. We expect earnings to grow at a CAGR of 65.1%, over a period of three years on the back of strong volume growth in the yarn segment, new capacities getting operational and firm commodity spreads.

PRICE TARGET Rs 37/- (18 Months)

Index Details

Sensex	18,882
Nifty	5,655
BSE 500	7,312
Industry	Textiles

Scrip Details

Mkt Cap (Rs in crore)	182
Book Value (Rs)	14.3
Eq Shares O/s (Cr)	12.6
Avg Vol (Lacs)	1.6
52 Week H/L	21/10
Dividend Yield (%)	5.0
Face Value (Rs)	5.0
BSE Code	521030
NSE Code	NA

Shareholding Pattern (30th Sep, 2010)

Shareholders	% holding
Promoters	50.2
Indian Institutions	0.0
FII's	0.0
Non Promoter Corporate	10.2
Public	39.5
Total	100.0

Nakoda vs. Sensex

Backward and forward integration to augment capacities and boost revenue growth and profitability

In Phase 1 of its Rs 333 crore expansion that has been completed, Nakoda has established a 1,40,000 TPA Continuous Polymerization Plant (CPP) which will cater to the needs of the downstream expansion (FDY / DTY / POY) besides expanding margins by 190 bps. Enhanced capacities for FDY & DTY stand at 59,500 (+ 205%) & 29,870 (+ 2692%) tpa respectively while production from these capacities is expected to stabilize by the middle of Q1CY2011.

In Phase 2 (capex of Rs 234 crore), the company is further expanding capacities of POY, FDY and DTY to 70,000 (+133.3%), 69,500 (+16.8%) & 39,870 (+33.5%) respectively which should commence production by end of December 2011. The Korean acquisition is expected to add another 54,000 tpa of FDY, 32,400 tpa of POY and 21,600 tpa of PET chip capacity.

On the back of these enhanced capacities, we expect consolidated revenues to grow at a CAGR of 38.9% to Rs 2,641 crore by CY2012. Commensurately we expect the EBITDA margins to expand by 360 bps to 8.6% and earnings to grow at a CAGR of 65.1% over the forecast period.

South Korean acquisition to provide growth through newer markets and secure raw material sourcing

Nakoda through its subsidiary IKPL acquired the plant of Kyunghan in South Korea for a consideration of $40 mn at the bottom of the polyester cycle. IKPL has one of the lowest cost of capital of $180 per ton and compares favorably with Korean market leader TK Chemical's $591.3 capital cost per ton. In our view, the venture should pay back in a period of 3-4 years

With the Korean demand for fibre reviving, shortages of fibre capacities and abundance of raw material (PTA and MEG) has landed the company in a sweet spot. In addition, IKPL can cater to the other high growth markets of GCC, Europe & Africa. Revenues from IKPL are expected to

Key Financials (Rs in Cr)

Y/E Dec (Rs Crore)	Net Revenue	EBITDA	PAT	EPS	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (X)	EV/ EBITDA(X)
2009	986.3	49.3	22.7	1.8	68.7	23.9	15.2	8.1	5.0
2010E	1339.5	73.4	32.8	2.6	44.6	13.1	8.6	5.6	3.4
2011E	2126.1	130.7	55.5	4.4	69.2	18.2	12.5	3.3	1.9
2012E	2640.8	227.9	102.0	8.1	83.7	25.1	20.4	1.8	1.1

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grow at a CAGR of 136% to Rs 757.2 by CY2012. IKPL's contribution to revenue is expected to be in the range of 29-30% of consolidated revenues in CY11& CY12; while net margins are expected to be significantly higher than the domestic operations.

IKPL can also help source PTA and MEG for domestic operations during tight supply conditions helping the company over ride the issue of raw material availability.

Increased demand for textiles and shrinking arable land to pressure cotton supplies leading to improved pricing and demand for man-made fibre; notably polyester.

Population growth & declining arable acreage is a limiting factor to the production of cotton and other natural fibres. With the global & domestic textile industry growing at the rate of 5% and 11% respectively, the additional demand would perforce have to be catered to by man-made fibres (MMF). With polyester constituting ~80% of MMF, polyester is increasingly becoming the preferred fibre of choice and scores well on its price competitiveness and high compatibility with natural fibre.

India's per capita polyester consumption at 1.6 kg, is one of the lowest (and compares favorably with China at 6.1 kg/capita and Global average of 4.2 kg/capita) and is set to surge given the enhanced demand from substitution and industrial consumption. Currently, the domestic cotton polyester usage ratio is at 57:43 and is expected to inch to 40:60 in the medium term, in favour of polyester.

Despite the increasing raw material cost, polyester spreads are expected to remain in an upward trajectory given the widening price gap between polyester and cotton and between polyester and other alternate fibre like viscose/ acrylics. Also with global demand far exceeding operational capacities and significant capacity expansions expected to come on stream only post 2013, the scenario could not have been more favourable. We have assumed prices for POY / FDY / DTY at Rs 86 / 99 / 104 per kg and at Rs 93 / 105 / 109 per kg for CY11& CY12 respectively.

Surat Textile park to provide cushion through assured off take

In a strategic move, Nakoda has acquired an 18.5% stake in the Surat Super Yarn Park (SSYP) for a consideration of Rs 3 crores. SSYP will have a total POY processing capacity of 151,000 TPA and in addition it will house a 20 MW coal based power plant. Nakoda will be investing ~Rs 37.7 crore in setting up 20 texturizing machines by itself within the Park.

The SSYP demand will result in assured offtake of more than the entire POY production capacity of Nakoda. To cater to the forecasted needs of this Textile Park, Nakoda can source an additional 52,500 TPA of POY from other players and thereby augmenting revenues and profits. Further, Nakoda would be directly selling texturised fabric procured from SSYP texturisers and earn marketing margin. However we have not modeled any revenues from the SSYP in our forecast.

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Power business to boost profitability and reduce sector specific risk

Nakoda has a small presence in the renewable energy space through its 6.75 MW wind power project in Tamil Nadu which was commissioned on October 2010. It plans to commission another 5.25 MW of wind power from its second project located in Madhya Pradesh in March 2011. In CY2012, we expect revenues of Rs 12.68 crore and profits of Rs 5.69 crore from the wind power business.

Nakoda is contemplating further investments in the power segment and has ambitious plans of setting up off over 500 MW of wind power generation across various sites located throughout India. The investments required for such a large expansion are sizeable and Nakoda is planning to set up a SPV for the same. However these plans have yet to be firmed up and hence have not been factored in our valuations.

Attractive Valuations

We have valued Nakoda at a 20% discount to peak cycle valuations. Initiate with a BUY for a Price Objective of Rs 37 (target PE of 4.6x for CY2012) over an 18 month horizon representing a potential upside of 154%. ROE and ROCE set to improve from the 24% & 15% to 25% & 20% respectively by CY12. Key concerns sluggish economic recovery and sharp spurt in raw material due to rising crude prices

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Exhibit 01: Financials and Projections

Profit & Loss Statement

Y/E March, Fig in Rs. Cr	CY2009	CY2010e	CY2011e	CY2012e
Net Sales	**986.3**	**1339.5**	**2126.1**	**2640.8**
% Chg.	*28%*	*36%*	*58%*	*24%*
Total Expenditure	**937.0**	**1266.1**	**1995.3**	**2412.9**
% Chg.	*26%*	*35%*	*58%*	*21%*
EBIDTA	**49.3**	**73.4**	**130.7**	**227.9**
EBIDTA Margin %	*5%*	*5%*	*6%*	*9%*
Other Income	3.5	3.8	4.6	4.6
EBIT	52.9	77.2	135.3	232.5
Depreciation	5.4	8.3	16.2	32.1
Interest	20.1	29.0	47.7	70.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	**27.3**	**39.9**	**71.3**	**130.5**
Tax Provisions	4.7	7.1	15.8	28.5
Profit After Tax	**22.7**	**32.8**	**55.5**	**102.0**
Minority Interest	-	-	-	-
Reported PAT	**22.7**	**32.8**	**55.5**	**102.0**
PAT Margin (%)	*2.3%*	*2.4%*	*2.6%*	*3.9%*
Raw Materials / Sales (%)	*91.7*	*89.7*	*88.5*	*85.9*
Employee Exp / Sales (%)	*0.3*	*0.3*	*0.2*	*0.2*
Other Mfr. Exp / Sales (%)	*2.5*	*2.5*	*2.5*	*2.5*
Tax Rate (%)	*17.0*	*17.9*	*22.1*	*21.8*

Key Ratios

Y/E March, Fig in Rs. Cr	CY2009	CY2010e	CY2011e	CY2012e
Per Share Data (Rs)				
EPS	1.8	2.6	4.4	8.1
Cash EPS	2.2	3.3	5.7	10.6
DPS	0.7	0.5	0.5	0.5
Book Value	14.3	19.9	24.1	32.1
Capital, Liquidity, Returns Ratio				
Debt / Equity (x)	3.0	2.9	3.0	2.2
Current Ratio (x)	2.0	1.9	2.0	2.0
ROE (%)	24%	13%	18%	25%
ROCE (%)	15%	9%	12%	20%
Dividend Yield (%)	5%	3%	3%	3%
Valuation Ratio (x)				
P/E	8.1	5.6	3.3	1.8
P/BV	1.0	0.7	0.6	0.5
EV/Sales	0.3	0.2	0.1	0.1
EV/EBIDTA	5.0	3.4	1.9	1.1
Efficiency Ratio (x)				
Inventory (days)	29	24	25	24
Debtors (days)	102.6	103.6	98.9	99.0
Creditors (days)	0.1	0.1	0.1	0.1

Balance Sheet

Y/E March, Fig in Rs. Cr	CY2009	CY2010e	CY2011e	CY2012e
Share Capital	16.6	63.2	63.2	63.2
Reserves & Surplus	78.5	187.8	241.8	342.4
Minority Interest	-	-	-	-
Total Loans	288.9	738.4	912.0	888.3
Deferred Tax Liability	-	-	-	-
Total Liabilities	**384.0**	**989.4**	**1217.0**	**1293.9**
Gross Block	138.8	621.6	818.0	828.0
Less: Acc. Depreciation	41.8	50.2	66.4	98.5
Net Block	**97.0**	**571.5**	**751.6**	**729.6**
Capital Work in Progress	76.4	113.2	36.2	32.1
Investments	0.6	3.7	3.9	4.0
Net Current Assets	**217.2**	**308.2**	**432.5**	**535.4**
Deferred Tax Assets/Liability	**-7.1**	**-7.1**	**-7.1**	**-7.1**
Total Assets	**384.0**	**989.4**	**1217.0**	**1293.9**

Cash Flow Statement

Y/E March, Fig in Rs. Cr	CY2009	CY2010e	CY2011e	CY2012e
Profit After Tax	22.7	32.8	55.5	102.0
Depreciation	5.4	8.3	16.2	32.1
Working Capital Changes	-40.9	-65.7	-108.1	-100.9
Others	-0.9	0.0	0.0	0.0
Operating Cash Flow	**-13.7**	**-24.5**	**-36.4**	**33.1**
Capital Expenditure	-113.2	-519.6	-119.4	-5.9
Change in Investment	-0.5	-3.1	-0.2	-0.1
Cash Flow from Investing	-113.8	-522.7	-119.6	-6.0
Proceeds from equity issue	1.6	124.6	0.0	0.0
Inc/(Dec) in Debt	156.8	449.5	173.6	-23.7
Dividend Paid	-1.4	-1.5	-1.5	-1.5
Cash Flow from Financing	**157.1**	**572.6**	**172.1**	**-25.2**
Net Change in Cash	29.6	25.4	16.1	2.0
Opening Cash Balance	35.4	65.0	90.4	106.6
Closing Cash Balance	65.0	90.4	106.6	108.6

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